

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Administrative Office	(2) MEETING DATE 7/26/2016	(3) CONTACT/PHONE Dan Buckshi, County Administrative Officer 805-781-5011	
(4) SUBJECT Update regarding the joint proposal for the closure of the Diablo Canyon Power Plant. All Districts.			
(5) RECOMMENDED ACTION Receive and file this report and provide direction to staff as your Board deems appropriate.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT TBD	(8) ANNUAL FINANCIAL IMPACT Significant	(9) BUDGETED? N/A
(10) AGENDA PLACEMENT { } Consent    { } Presentation    { } Hearing (Time Est. ____ )    { <b>X</b> } Board Business (Time Est. ____ )			
(11) EXECUTED DOCUMENTS { } Resolutions    { } Contracts    { } Ordinances    { <b>X</b> } N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: { } 4/5 Vote Required    { <b>X</b> } N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? N/A	(16) AGENDA ITEM HISTORY { <b>X</b> } N/A    Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW Guy Savage			
(18) SUPERVISOR DISTRICT(S) All Districts			

# County of San Luis Obispo



TO: Honorable Board of Supervisors

FROM: Dan Buckshi, County Administrative Officer  
Rita Neal, County Counsel

DATE: 7/26/2016

SUBJECT: Update regarding the joint proposal for the closure of the Diablo Canyon Power Plant. All Districts.

## **RECOMMENDATION**

Receive and file this report and provide direction to staff as your Board deems appropriate.

## **DISCUSSION**

On June 21, 2016 Pacific Gas & Electric (PG&E) in conjunction with Friends of the Earth, Natural Resources Defense Council, Environment California, International Brotherhood of Electrical Workers Local 1245, Coalition of California Utility Employees, and Alliance for Nuclear Responsibility issued a joint proposal to retire the Diablo Canyon Power Plant (Diablo Canyon) at the expiration of the current operating licenses (2024 and 2025). The proposal was issued one week in advance of the State Lands Commission meeting in which the Commission was to consider the extension of the licenses required for the seawater intake and outfall system at the plant. On June 28, 2016, the State Lands Commission extended the licenses to coincide with the expiration dates for the operating licenses for the power plant.

The closure of Diablo Canyon will have significant ramifications. The plant produces approximately 18,000 gigawatt-hours of electricity annually and accounts for roughly 20% of PG&E's electricity portfolio and 9% of California's electricity consumption. According to a 2013 study by Cal Poly, Diablo Canyon is one of the largest employers in the county and its annual local economic impact is estimated at \$1 billion. Additionally, the total economic impact of Diablo Canyon is approximately \$2 billion per year nationally. Per the 2013 study, Diablo Canyon directly employs over 1,500 people and supports over 3,358 local jobs, 4,542 statewide, and 10,372 nationwide.

The County of San Luis Obispo and other local stakeholders were not included in the negotiation of the joint proposal. The County first became aware of the agreement when the press release was issued on June 21. Since the announcement, County staff has been reviewing and analyzing the agreement. The purpose of this report is to provide an overview of the joint proposal, identify issues for consideration, and outline next steps. It's worth noting that many questions remain regarding the joint proposal.

### **Summary of Proposal**

The joint proposal is designed to achieve the retirement of the Diablo Canyon reactors at the end of their current Nuclear Regulatory Commission (NRC) licenses while replacing their output over many years with greenhouse gas (GHG)-free resources. Reaching this end goal required the signatories to agree on a number of related issues including: (1) an extension of the State Lands Commission lease for Diablo intake and outfall components until the reactors cease producing energy, (2) a program for severance, retention and retraining of employees, (3) community mitigation funding for lost property taxes, continued emergency planning and other unspecified community benefits, (4) extension of the spent fuel storage facility license, and (5) funding of all joint proposal components through CPUC-approved customer rates. The terms of the joint proposal will be submitted to the California Public Utilities Commission (CPUC) as a separate

application on or before July 28<sup>th</sup>.

The timing of the proposal is tied to the State Lands Commission's recent determination to extend until 2024 and 2025 the lease for Diablo Canyon's seawater intake and discharge components. Most of the parties agreed to not oppose the lease extension or to seek additional environmental review of it. PG&E agreed that it would make a separate lease extension application to State Lands to cover the decommissioning period and decommissioning activities.

It will take many years for PG&E to procure replacement energy sources. The joint proposal authorizes PG&E to obtain 2000 gross gigawatt hours through energy efficiency programs in the 2018 through 2024 timeframe, and 2000 additional gross gigawatt hours through GHG-free energy sources during the 2025 through 2030 time period. Additionally, in each of the years beginning in 2031 and ending in 2045, PG&E commits to providing 55% of its total retail sales from eligible renewable energy sources.

PG&E will offer its employees an employee severance program, a retention program, and a retraining and development program. The joint proposal application will include a detailed description of these various programs. Together, they are estimated to cost approximately \$350 million.

The joint proposal contemplates a "community mitigation program" which will include a payment in lieu of taxes, continued emergency planning through termination of Diablo's 10 CFR Part 50 license, and other unspecified community payments. The joint proposal parties have agreed to support PG&E's depreciation of the value of each reactor unit to zero by the end of its operating license. The payment in lieu of taxes is proposed to compensate San Luis Obispo County for the loss of unitary taxes associated with that depreciation through 2025. The components of the community mitigation program as proposed are estimated at \$49.5 million.

The community mitigation program cost and the employee program cost will be built in to a new decommissioning cost study to be submitted to the CPUC as part of the 2018 Nuclear Decommissioning Triennial Proceeding. The current estimated cost of decommissioning is \$3.779 billion in 2014 dollars.

Finally, the parties to the joint proposal have agreed to not oppose NRC approval of an extension of the spent fuel storage facility license. The current license is due to expire in 2024.

#### Impacts and Issues for Consideration

- 1) Safe operation of the Diablo Canyon Power Plant- It is imperative that PG&E operate the plant safely and in accordance with all regulations for the remainder of the plant's operating life. In addition, the Nuclear Regulatory Commission (NRC), Federal Emergency Management Agency (FEMA), California Office of Emergency Services (Cal OES), the County, and other agencies and jurisdictions must continue to fulfill their respective obligations to help ensure the public's health and safety.
- 2) Emergency preparedness and response infrastructure and associated funding- PG&E is responsible for emergency preparedness and response within the site boundaries of the plant. The County plays a lead role regarding emergency preparedness and response beyond the site boundaries in accordance with extensive Federal regulations. The County receives approximately \$2 million annually for its Diablo Canyon associated emergency management activities. Roughly \$1.8 million is allocated to County departments and \$250K to other local entities to help cover the costs of their associated activities.

In addition, PG&E estimates that it spends approximately \$2.6 million a year in direct costs on emergency equipment, infrastructure, and training. Some of the equipment paid for and maintained by PG&E includes the County's Emergency Operations Center, the Joint Information Center, a dedicated phone system for quick and constant contact with numerous entities, the Early Warning System (which includes 131 sirens), and tone alert radios which are used to provide emergency incident information to schools, hospitals, and larger care homes for dependent populations.

It is imperative that all of the emergency preparedness and response infrastructure and associated funding remain in effect and comply with ever evolving standards and regulations throughout the operating life of the plant and for as long as spent fuel is located within the County.

- 3) Spent fuel on site- Once plant operations cease, spent fuel will still remain on site. It is estimated that spent fuel will remain in cooling pools for 5-10 years after closure. Once the spent fuel has cooled to appropriate levels, it will be transferred to dry cask storage. As a result of the failure of the Federal Government's nuclear waste policy and associated programs, it is anticipated that the spent fuel will remain on site in perpetuity. As such, a significant threat to the public health and safety of our community will remain. As noted above, it will be critical that appropriate emergency preparedness infrastructure and funding remain in effect. Additional consideration should be given regarding how to compensate the community for this continued threat.
- 4) Decommissioning- PG&E's current estimate is that decommissioning will cost \$3.8 billion and will last for decades. The cessation of power production, the development of plans for decommissioning, and plans for any needed site remediation will require regulatory approval at multiple levels of government. These approval processes include notice and comment opportunities for the public. In order to establish a reliable decommissioning funding source, PG&E will be required to provide a Diablo Canyon site specific study to the CPUC for review and approval.
- 5) Desalination- A little over a year ago, the County began to pursue the use of unutilized capacity of Diablo Canyon's desalination plant in order to provide water to the South County. At a minimum, it was estimated the plant could convey 1,300 acre feet annually, which would provide a much needed increase in local water supplies to help offset the public health threats associated with the current drought. When discussions began, PG&E assured the County and others that the desalination project would be viable even if the relicensing of the plant's operations were not pursued or if the plant otherwise ceased to operate. Since the release of the June 21 proposal, PG&E has been adamant that the desalination project is no longer viable. The use of desalinated water from the plant for community needs is not directly referenced in the joint proposal, but the joint proposal relies upon both an extended State Lands Commission lease and a proposed new lease application for Diablo Canyon's intake and outfall components. Given that the use of Diablo Canyon's desalination operation is a critical component of the County's water strategy, this issue will need to be further clarified and addressed.
- 6) Direct tax revenue impacts- PG&E is one of the largest taxpayers in the County and pays over \$30 million per year in unitary taxes (property taxes for a public utility), which is allocated to over 80 governmental agencies or jurisdictions within the County. The vast majority of this unitary tax is directly attributable to Diablo Canyon. The County Government and the San Luis Coastal Unified School District receive over \$8 million per year and \$10 million per year respectively. These payments represent most of the unitary tax attributable to Diablo Canyon as the other agencies and jurisdictions receive considerably smaller amounts by comparison. Because of the closure of the plant, the plant will be mostly depreciated between now and 2025 and the unitary tax paid by PG&E will drop accordingly. The detailed depreciation schedule is not available at this time, however it is anticipated that the plant will approach full depreciation and the unitary tax payment will be virtually nonexistent.

The joint proposal includes a provision for the mitigation of community impacts. The provision states that PG&E would compensate San Luis Obispo County for the loss of property taxes associated with the declining rate base in Diablo Canyon through a transition period ending in 2025. PG&E estimates the cost of this community impacts mitigation at \$49.5 million. The concept is that PG&E would offset the compounding decrease in the amount of unitary tax paid as a result of the accumulated depreciation between now and 2025. As of the writing of this document, the methodology for how the \$49.5 million was derived has not been made available by PG&E. Based on preliminary information received from the State Board of Equalization, the County's estimated cost of this mitigation is much higher.

- 7) Broad economic impact- As noted earlier in this report, the local economic impact of Diablo Canyon is estimated at \$1 billion annually. Additionally, the total economic impact of Diablo Canyon is approximately \$2 billion per year nationally. Per the 2013 Cal Poly study, Diablo Canyon directly employs over 1,500 people and supports over 3,358 local jobs, 4,542 statewide, and 10,372 nationwide. It is critical that the negative impacts to the economy associated with the closure be addressed. In conjunction with the joint proposal, further discussions should occur with respect to what mitigations should be pursued. Additionally, strategies and associated actions

will need to be developed in order to further diversify the local economy over the long term. Preliminary discussions have occurred with the Economic Vitality Corporation (EVC) about how to best pursue this endeavor.

Also of relevance is Senate Bill 968, which was introduced by Senator Monning (Coauthors Senator Jackson and Assembly Member Achadjian). In summary, if enrolled, the bill would require the CPUC to cause an assessment to be completed no later than July 1, 2018, of the adverse and beneficial economic impacts associated with the closure of the plant, and the net economic effects, that could occur, and of potential ways for the State and local jurisdictions to mitigate the adverse economic impact. The County will continue to closely track this bill and work with Senator Monning and others as necessary.

- 8) Future use of the site and facility- PG&E and Eureka energy own a significant amount of property at and around Diablo Canyon. This property encompasses thousands of acres and several miles of coastline and extends from Avila Beach in the south to Montana de Oro State Park in the north. The property includes a jetty and harbor and approximately 300,000 square feet of office space. There will likely be many proposals for the future use of the site ranging from complete remediation to a natural state to allowing commercial or residential development in the surrounding areas.

One consideration of note is an advisory measure that was authorized by San Luis Obispo County voters on March 7, 2000. The Proposed Diablo Resources Advisory Measure (DREAM) stated the following:

*Shall the County Board of Supervisors recognize the Diablo Canyon Lands as an exceptionally precious coastal resource by adopting policies that promote habitat preservation, sustainable agricultural activities, and public use and enjoyment consistent with public safety and property rights once the lands are no longer needed as an emergency planning buffer for the Diablo Canyon Nuclear Power Plant after its operation life?*

As noted above, the measure is advisory only and was approved by a majority of voters. Reference Attachment 5 for more details.

#### Timing

Per the joint proposal, PG&E is to submit the proposal to the CPUC no later than 30 days after the extension of the permits by the State Lands Commission, which is July 28, 2016. Additionally, PG&E will request that the CPUC issue a final decision approving the joint proposal by December 31, 2017.

#### Actions and Next Steps

On July 12, 2016, via a 5-0 vote, your Board directed that the County intervene in the relevant rate hearing cases before the CPUC. On July 14, 2016, the San Luis Coastal Unified School District did the same. Doing so will allow the two entities that are most directly impacted by the closure of Diablo Canyon to engage in the process of evaluating the joint proposal.

In addition, it's anticipated that the County will have ongoing discussions with PG&E, the School District, and others in the community in order to pursue an agreement that will balance the many and varied needs and interests.

#### **OTHER AGENCY INVOLVEMENT/IMPACT**

As noted above, the joint proposal was created by PG&E in conjunction with Friends of the Earth, Natural Resources Defense Council, Environment California, International Brotherhood of Electrical Workers Local 1245, Coalition of California Utility Employees, and the Alliance for Nuclear Responsibility. Since the issuance of the joint proposal, County staff met or spoke with PG&E, the seven cities located in the County, the Economic Vitality Corporation, outside counsel, and several members of the community in order to gather information for this report.

## **FINANCIAL CONSIDERATIONS**

As referenced above, per a 2013 Cal Poly study, Diablo Canyon contributes approximately \$1 billion annually to the local economy. Additionally, PG&E is one of the largest taxpayers in the County, which is primarily because of Diablo Canyon. The County directly receives over \$8 million per year in unitary taxes and the San Luis Coastal Unified School District directly receives over \$10 million per year in unitary taxes. In total, over 80 governmental agencies or jurisdictions receive unitary tax paid by PG&E. Additionally, the County receives over \$2 million for Diablo Canyon related emergency preparedness and response activities and PG&E spends approximately \$2.6 million annually in direct costs on emergency equipment, infrastructure, and training.

## **RESULTS**

To provide an update to the Board of Supervisors and the public regarding an issue that will significantly impact the public health, safety, and welfare of the County of San Luis Obispo.

## **ATTACHMENTS**

1. Joint Proposal
2. 2013 Cal Poly Economic Benefits of Diablo Canyon Power Plant Study
3. 2013 County impact staff report
4. SB 968
5. 2000 DREAM advisory measure information